

Milan Area Schools

Milan, Michigan

FINANCIAL STATEMENTS

**For the Year Ended
June 30, 2008**



REHMANN ROBSON

Certified Public Accountants

MILAN AREA SCHOOLS

For the Year Ended June 30, 2008

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MILAN AREA SCHOOLS

For the Year Ended June 30, 2008

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REHMANN ROBSON

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INDEPENDENT AUDITORS' REPORT

October 15, 2008

Board of Education
Milan Area Schools
Milan, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the **MILAN AREA SCHOOLS**, as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Milan Area Schools, as of June 30, 2008, and the respective changes in financial position thereof and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2008, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3-10 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Milan Area Schools' basic financial statements. The combining and individual fund financial statements listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of Milan Area Schools. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style with a large initial 'L'.

MANAGEMENT'S DISCUSSION and ANALYSIS

Management's Discussion and Analysis

As management of Milan Area Schools, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2008.

Financial Highlights

- The liabilities of the District exceeded its assets at the close of the most recent fiscal year by (\$1,573,828) (*net assets*).
- The government's total net assets increased by \$319,933.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$2,510,930, an increase of \$202,065 in comparison with the prior year. Approximately 88% or \$2,220,519 is *available for spending* at the government's discretion (*unreserved fund balance*). The majority of the available funds are in the 2002 Debt Service Fund.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$955,031, or 4.5 % percent of total general fund expenditures.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the District's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the District that are principally supported by taxes and intergovernmental revenues (*governmental activities*). The governmental activities of the District include instruction, support services, food service, athletics and community service. The District has no business-type activities as of and for the year ended June 30, 2008.

Fund financial statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into two categories: governmental funds and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The District maintains eight individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and the 2002 Debt Service Fund, both of which are considered to be major funds. Data from the other six governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The District adopts an annual appropriated budget for its general and special revenue funds. A budgetary comparison statement is provided for the General Fund herein to demonstrate compliance with that budget.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the District's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information. The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the notes to the financial statements.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, liabilities exceeded assets by (\$1,573,828) at the close of the most recent fiscal year.

The largest portion of the District's net assets reflects its investment in capital assets (e.g., land, buildings, vehicles, and equipment), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to the students it serves; consequently, these assets are *not* available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

District's Net Assets **Governmental Activities**

	<u>2007-08</u>	<u>2006-07</u>
Current and other assets	\$ 8,073,763	\$ 8,086,213
Capital assets, net	<u>53,929,877</u>	<u>55,514,398</u>
Total assets	<u>62,003,640</u>	<u>63,600,611</u>
Long-term liabilities outstanding	57,807,412	59,522,673
Other liabilities	<u>5,770,056</u>	<u>5,971,699</u>
Total liabilities	63,577,468	65,494,372
Net assets:		
Invested in capital assets, net of related debt	(2,779,220)	(3,119,842)
Restricted	565,910	933,116
Unrestricted	<u>639,482</u>	<u>292,965</u>
Total net assets	<u>\$ (1,573,828)</u>	<u>\$ (1,893,761)</u>

The District currently has a negative net asset balance. In other words, if all of our liabilities were due on 6/30/08, liquidation of all capital assets would not be sufficient to meet our obligations.

It is not unusual for districts, such as Milan, that participate in the Michigan School Bond Loan Program/School Loan Revolving Fund to achieve a negative net asset balance. This borrowing allows the district to consistently levy 8.04 mills for debt service. When yearly tax collections for debt retirement exceed interest and principal due, the district will continue to levy 8.04 mills for debt service, using the excess tax collections to repay the School Bond Loan Fund/School Loan Revolving Fund. That was the case in the current year and Milan repaid \$25,662 to the School Bond Loan Fund. However, the remaining balance owed to the School Bond Loan Program/School Loan Revolving Fund is in excess of \$8,000,000.

Another aspect of long-term debt that drives down net assets is compensated absences. These are sick and vacation days accumulated by employees, which would be payable if all employees, were to resign on 6/30/08. That unlikely scenario creates an accrued liability of \$767,258.

Retirement incentives which are payable as of the close of the school year also reduce net assets. In 2007/08 the district offered retirement incentives to teachers retiring as of 6/30/08. A portion of the incentive was paid prior to 6/30/08. The remainder of the payout, \$162,000, will be paid post retirement. At the same time, a previous retirement incentive payable of \$90,000 was paid in full in 2007-08.

In addition to total net assets, another indicator of the district's financial position is unrestricted net assets. The previous table reflects that unrestricted net assets increased in 2007-08, from \$292,965 to \$639,482. The positive balance indicates that funds that are restricted for debt service and other purposes are available at 6/30/08.

The government's net assets increased by \$319,933 during the current fiscal year. The net increase is the result of multiple factors both increasing and decreasing net assets.

District's Changes in Net Assets
Governmental Activities

	<u>2007-08</u>	<u>2006-07</u>
Revenue:		
Program revenue:		
Charges for services	\$ 1,002,699	\$ 909,573
Operating grants and contributions	2,795,967	3,140,718
General revenue:		
Property taxes	7,917,313	7,459,897
State school aid	14,856,774	14,401,452
Grants and contributions not restricted to specific programs	459,247	752,917
Unrestricted investment earnings	165,345	145,558
Gain on Sale of capital assets	<u>1,500</u>	<u>2,914</u>
Total revenue	<u>27,198,845</u>	<u>26,813,029</u>

Expenses:

Instruction	12,627,589	11,896,711
Support services	7,869,228	8,035,207
Community service	446,957	309,179
Athletics	447,566	375,402
Food service	873,480	898,807
Interest on long-term debt	2,945,245	3,080,903
Unallocated depreciation	<u>1,668,847</u>	<u>1,775,098</u>
Total expenses	<u>26,878,912</u>	<u>26,371,307</u>
Change in net assets	319,933	441,722
Net assets, beginning of year	<u>1,893,761</u>	<u>1,335,483</u>
Net assets, end of year	<u>\$ (1,573,828)</u>	<u>\$ (1,893,761)</u>

Governmental activities. Net assets increased by \$319,933. The key elements both decreasing and increasing net assets are as follows:

- Support Services expense decreased by \$165,978 largely due to an ongoing energy savings program initiated in June 2006. This was a major component of the overall fund balance increase of \$202,065 in the total governmental funds.
- Depreciation expense of \$1,668,847. Depreciation reduces the stated value of capital assets, also reducing net assets.
- Debt payments of \$2,260,000 served to reduce long-term debt. Since capital assets are stated net of related debt, reducing long-term debt saves capital assets from further reduction.
- In 2007-08 the District began repaying the School Bond Loan Fund, as opposed to borrowing as was done in the past (to pay the excess of current and accrued interest and principal due on bonds over the tax collections for debt service). However, the repayment of \$25,662 was offset by \$353,105 increased interest costs on funds borrowed in previous years. As mentioned above capital assets are stated net of related debt. Increasing debt reduces capital assets as stated.

Financial Analysis of the Government's Funds

As noted earlier, the district uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the District's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the District's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$2,510,930, an increase of \$202,065 in comparison with the prior year. Approximately 88% of this total amount (\$2,200,519) constitutes *unreserved fund balance*, which is available for spending at the government's discretion. The remainder of fund balance is *reserved* to indicate that it is either reserved for a specific program or not available for new spending because the underlying assets are included in inventory and prepaid expenses and are not available for current expenditure.

The general fund is the chief operating fund of the District. At the end of the current fiscal year, unreserved fund balance of the general fund was \$955,031, while total general fund balance was \$1,177,762. As a measure of the general fund's liquidity, it is useful to compare unreserved fund balance to total general fund expenditures. Unreserved fund balance represents approximately 4.5 percent of total general fund expenditures. While this is a 1.5% increase over 2006/07, an unreserved fund balance of 10-12 % is generally recommended.

The fund balance of the District's general fund increased by \$194,052, during the current fiscal year. The unreserved fund balance increased by \$304,361. While costs in the areas of salaries and fringe benefits continued to rise, an increase in State Aid, including an equity payment (additional funding for schools that receive the lowest available foundation allowance), increased enrollment and continued efforts in our energy savings program enabled the district to manage rising costs and increase fund balance. In addition, previous reductions in supply and materials budgets and support services were maintained.

The 2002 debt service fund has a total fund balance of \$1,209,434, unreserved. A high balance is maintained in the 2002 debt fund to make monthly interest payments in the summer months prior to summer tax collections.

General Fund Budgetary Highlights

There were several noteworthy changes between the original and final amended budgets:

- Local revenues increased due to increases in Non-Homestead taxable values, which increased operating tax revenues.
- Growth in enrollment in preschool and after school tuition programs also increased local revenues.
- State revenues, while decreasing due to the increase in local operating tax revenues, had a net increase due to increased enrollment and an increase in the State Aid Foundation Allowance.
- Increased enrollment resulted in corresponding increases in instructional costs.
- Tuition costs formerly expensed under Supporting Services were moved to the area of Basic Programs per State guidelines.
- Operations and maintenance costs decreased due to energy cost savings.

Once additional information was known, subsequent budget amendments recognized the additional revenue and expense.

Capital Asset and Debt Administration

Capital assets

The District's investment in capital assets for its governmental activities as of June 30, 2008, amounted to \$53,929,877 (net of accumulated depreciation). This investment in capital assets includes land, buildings, vehicles and equipment. This reflects a decrease of \$1,584,521 from the previous year. Modest expenditures for capital assets were offset by depreciation expense of \$1,668,847.

The major capital asset event during the current fiscal year was the purchase of one school bus at \$77,177.

District's Capital Assets		
	6/30/08	6/30/07
Capital Assets not being depreciated:		
Land	\$ 1,607,945	\$ 1,607,945
Capital assets being depreciated (net of depreciation)		
Site Improvements	2,792,254	3,003,584
Buildings	48,401,892	49,481,694
Vehicles	371,568	391,235
Equipment	<u>756,218</u>	<u>1,029,940</u>
Total	<u>\$ 53,929,877</u>	<u>\$ 55,514,398</u>

Additional information on the District's capital assets can be found in III.C of the notes to this report.

Long-term debt. At the end of the current fiscal year, the District had total bonded debt outstanding of \$51,314,057.

The District's total long-term debt decreased by \$1,877,261, (approximately 3%) during the current fiscal year.

Additional information on the District's long-term debt can be found in III.F of the notes section to this report.

Factors Bearing on the District's Future

The following factors were considered in preparing the District's budget for the 2008-09 fiscal year:

- The State Aid Foundation Grant was projected to increase by \$100 per pupil to \$7,304 per pupil.
- The District budgeted for a slight increase in the student population.
- The District is going into the second year of a three-year contract with the teachers that began 7/1/07. The agreement includes a 2.25% raise in the second year plus an additional .5% increase in return for the agreement to change health care insurance from a traditional plan to a PPO in year one.

- In spite of savings associated with the switch to a health PPO on 7/1/07, significantly high experience in 2007 has resulted in a 21% increase in health premiums for 08-09.
- The retirement rate is scheduled to decrease from 16.72% of gross wages to 16.54% on 10/1/08.
- The District will continue to contract with energy management consultants and will continue to employ an onsite energy management educator to assist the district in further reducing energy usage and containing utility costs.
- The District, along with the Intermediate School District, will continue to explore cost savings through consolidation of services. The contracting of sub teachers, which was a collaboration of all the districts in the Washtenaw Intermediate School District, beginning in 07-08, is a successful program, which will be continued in 08-09.
- The District will expand educational opportunities for High School Students by joining with other Districts in the WISD and Eastern Michigan University in the Early College Alliance. High School Students will have the opportunity to earn both High School and College credit while attending the university on a full time basis. While 85% of the student foundation allowance will be used for tuition payments to the ECA, 15% of the foundation allowance will remain with the District.
- In the 07-08 school year the District underwent a facilities needs study which resulted in a plan to present a bond proposal to the voters in 2008-09. The bond proceeds would be used for improvements as well as additions to current facilities. The additional debt would not increase the current tax levy, but would return the District to borrowing from the School Loan Revolving Fund and the current debt levy of 8.04 mills would be extended out an additional number of years based on the final amount borrowed.
- While budgeting on the conservative side for student enrollment in 2008-09, we continue to expect moderate growth over the next five to ten years. We are dependent upon that growth and future increases in the foundation grant allowance to maintain our current programs, continue investing in updated curriculum and fund adequate building and maintenance repair budgets. In addition, it is our goal to steadily increase our unreserved fund balance from 4.5% to the generally recommended 10-12%. It will take significant changes in State funding of K-12 education to generate the increased revenue needed to restore supply budgets, allow for replacement of two buses per year, recall all employees on lay-off and reduce class sizes.

Requests for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Superintendent, 100 Big Red Drive, Milan, Michigan 48160.

BASIC FINANCIAL STATEMENTS

DISTRICT-WIDE FINANCIAL STATEMENTS

MILAN AREA SCHOOLS
Statement of Net Assets
June 30, 2008

	Governmental Activities
<hr/>	
Assets	
Cash and cash equivalents	\$ 4,092,993
Receivables	3,729,764
Prepaid items and other assets	251,006
Capital assets not being depreciated	1,607,945
Capital assets being depreciated, net	52,321,932
	<hr/>
Total assets	62,003,640
	<hr/>
Liabilities	
Accounts payable and accrued liabilities	2,638,529
State aid note payable	3,110,400
Unearned revenue	21,127
Noncurrent liabilities:	
Due within one year	2,400,934
Due in more than one year	55,406,478
	<hr/>
Total liabilities	63,577,468
	<hr/>
Net assets (Deficit)	
Invested in capital assets, net of related debt (deficit)	(2,779,220)
Restricted for:	
Debt service	494,110
Construction projects	3,421
Other purposes	68,379
Unrestricted	639,482
	<hr/>
Total net assets (deficit)	\$ (1,573,828)
	<hr/>

The accompanying notes are an integral part of these financial statements.

MILAN AREA SCHOOLS
Statement of Activities
For the Year Ended June 30, 2008

<u>Functions / Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Governmental activities:					
Instruction	\$ 12,627,589	\$ 3,504	\$ 2,309,872	\$ -	\$ (10,314,213)
Supporting services	7,869,228	-	-	-	(7,869,228)
Community service	446,957	425,248	-	-	(21,709)
Athletics	447,566	-	172,026	-	(275,540)
Food service	873,480	573,947	314,069	-	14,536
Interest on long-term debt	2,945,245	-	-	-	(2,945,245)
Unallocated depreciation	1,668,847	-	-	-	(1,668,847)
Total	<u>\$ 26,878,912</u>	<u>\$ 1,002,699</u>	<u>\$ 2,795,967</u>	<u>\$ -</u>	<u>(23,080,246)</u>
General revenues:					
Property taxes					7,917,313
Unrestricted state aid					14,856,774
Grants and contributions not restricted to specific programs					459,247
Unrestricted investment earnings					165,345
Gain on sale of capital assets					<u>1,500</u>
Total general revenues					<u>23,400,179</u>
Change in net assets					319,933
Net assets (deficit), beginning of year					<u>(1,893,761)</u>
Net assets (deficit), end of year					<u><u>\$ (1,573,828)</u></u>

The accompanying notes are an integral part of these financial statements.

FUND FINANCIAL STATEMENTS

MILAN AREA SCHOOLS

Balance Sheet Governmental Funds June 30, 2008

		2002	Other						
	<u>ASSETS</u>	General	Debt Service	Governmental Funds	Totals				
Assets									
Cash and cash equivalents	\$	2,735,838	\$	1,246,989	\$	110,166	\$	4,092,993	
Accounts receivable		222,723		-		8,655		231,378	
Due from other government		3,292,356		-		206,030		3,498,386	
Due from other funds		49,191		-		6,709		55,900	
Inventory		13,399		-		17,680		31,079	
Prepaid expenditures		169,927		-		50,000		219,927	
	<u>TOTAL ASSETS</u>	<u>\$</u>	<u>6,483,434</u>	<u>\$</u>	<u>1,246,989</u>	<u>\$</u>	<u>399,240</u>	<u>\$</u>	<u>8,129,663</u>
<u>LIABILITIES AND FUND BALANCES</u>									
Liabilities									
Accounts payable	\$	133,574	\$	37,555	\$	18,388	\$	189,517	
Accrued expenditures		92,591		-		-		92,591	
Salaries and benefits payable		1,945,459		-		34,682		1,980,141	
Due to other funds		6,709		-		49,191		55,900	
Deferred revenue		16,939		-		173,245		190,184	
Notes payable		3,110,400		-		-		3,110,400	
Total liabilities		<u>5,305,672</u>		<u>37,555</u>		<u>275,506</u>		<u>5,618,733</u>	
Fund balances (deficit)									
Reserved for inventory		13,399		-		17,680		31,079	
Reserved for prepaid expenditure:		169,927		-		50,000		219,927	
Reserved for Bleacher Project		1,234		-		-		1,234	
Reserved for First Steps Program		32,673		-		-		32,673	
Reserved - Toyota Donation		5,498		-		-		5,498	
Unreserved:									
Undesignated		955,031		1,209,434		-		2,164,465	
Undesignated, reported in nonmajor									
Special revenue funds		-		-		699		699	
Debt service funds		-		-		51,934		51,934	
Capital projects funds		-		-		3,421		3,421	
Total fund balances		<u>1,177,762</u>		<u>1,209,434</u>		<u>123,734</u>		<u>2,510,930</u>	
	<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u>\$</u>	<u>6,483,434</u>	<u>\$</u>	<u>1,246,989</u>	<u>\$</u>	<u>399,240</u>	<u>\$</u>	<u>8,129,663</u>

The accompanying notes are an integral part of these financial statements.

MILAN AREA SCHOOLS
Reconciliation of Fund Balances on the Balance Sheet
for Governmental Funds to Net Assets of
Governmental Activities on the Statement of Net Assets
June 30, 2008

Fund balances - total governmental funds	\$ 2,510,930
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add: capital assets	69,683,267
Deduct: accumulated depreciation	(15,753,390)

Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred revenues in the governmental funds, and thus are not included in fund balance.

Add: deferred long-term receivables	169,057
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Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Deduct: bonds and loans payable	(59,496,565)
Add: unamortized bond issuance costs	366,690
Add: unamortized loss on refunding	2,330,997
Deduct: unamortized bond premium	(109,276)
Deduct: accrued interest on bonds payable	(376,280)
Deduct: compensated absences and retirement incentive	(899,258)

Net assets of governmental activities	\$ <u>(1,573,828)</u>
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The accompanying notes are an integral part of these financial statements.

MILAN AREA SCHOOLS
Statement of Revenue, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2008

	General	2002 Debt Service	Other Governmental Funds	Totals
Revenue				
Local sources	\$ 5,530,576	\$ 2,131,874	\$ 3,198,290	\$ 10,860,740
State sources	15,301,255	-	59,244	15,360,499
Federal sources	749,912	-	254,825	1,004,737
Total revenue	21,581,743	2,131,874	3,512,359	27,225,976
Expenditures				
Education:				
Instruction	12,515,315	-	-	12,515,315
Support services	8,471,024	-	-	8,471,024
Food service activities	-	-	874,104	874,104
Athletic programs	-	-	447,878	447,878
Debt service:				
Principal	-	210,000	2,050,000	2,260,000
Interest	118,959	1,891,183	446,948	2,457,090
Total expenditures	21,105,298	2,101,183	3,818,930	27,025,411
Revenue over (under) expenditures	476,445	30,691	(306,571)	200,565
Other financing sources (uses)				
Proceeds from sale of capital assets	1,500	-	-	1,500
Transfers in	-	-	283,893	283,893
Transfers out	(283,893)	-	-	(283,893)
Total other financing sources (uses)	(282,393)	-	283,893	1,500
Net change in fund balances	194,052	30,691	(22,678)	202,065
Fund balances, beginning of year	983,710	1,178,743	146,412	2,308,865
Fund balances, end of year	<u>\$ 1,177,762</u>	<u>\$ 1,209,434</u>	<u>\$ 123,734</u>	<u>\$ 2,510,930</u>

The accompanying notes are an integral part of these financial statements.

MILAN AREA SCHOOLS
Reconciliation of the Statement of Revenues, Expenditures
and Change in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended June 30, 2008

Net change in fund balances - total governmental funds	\$	202,065
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Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add: capital outlay		84,327
Deduct: depreciation expense		(1,668,847)

The receipt of a long-term receivable represents revenue in the fund financial statements, but is reported as a reduction of the receivable in the statement of activities.

Deduct: payments received on deferred long-term receivables		(28,631)
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Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Add: principal payments on long-term liabilities		2,260,000
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Deduct: increase in accrued interest payable on bonds and loans		(311,684)
Deduct: amortization of bond issuance costs and loss on refunding		(176,471)
Add: decrease in the accrual for compensated absences		31,174
Deduct: increase in early retirement incentives payable		(72,000)

Change in net assets of governmental activities	\$	319,933
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The accompanying notes are an integral part of these financial statements.

MILAN AREA SCHOOLS
Statement of Revenue, Expenditures and Changes in Fund Balance
General Fund
For the Year Ended June 30, 2008

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Over (under) Final Budget</u>
Revenue				
Local sources	\$ 5,206,223	\$ 5,550,088	\$ 5,530,576	\$ (19,512)
State sources	14,713,534	15,304,582	15,301,255	(3,327)
Federal sources	884,481	772,695	749,912	(22,783)
Total revenue	<u>20,804,238</u>	<u>21,627,365</u>	<u>21,581,743</u>	<u>(45,622)</u>
Expenditures				
Instruction				
Basic programs	10,650,923	11,007,138	10,966,338	(40,800)
Added needs	1,386,664	1,369,759	1,351,090	(18,669)
Adult and continuing education	150,644	195,723	197,887	2,164
Total instruction	<u>12,188,231</u>	<u>12,572,620</u>	<u>12,515,315</u>	<u>(57,305)</u>
Supporting services				
Pupil services	1,841,662	1,866,259	1,843,857	(22,402)
Instructional support	641,842	713,925	695,473	(18,452)
General administration	419,369	438,174	417,558	(20,616)
School administration	981,906	1,040,884	972,364	(68,520)
Business services	257,173	235,403	226,832	(8,571)
Operations and maintenance	2,682,783	2,593,500	2,445,010	(148,490)
Transportation	1,032,858	1,085,321	1,084,838	(483)
Central support	210,682	230,015	228,253	(1,762)
Community Services	454,778	573,294	556,839	(16,455)
Tuition	190,966	-	-	-
Total supporting services	<u>8,714,019</u>	<u>8,776,775</u>	<u>8,471,024</u>	<u>(305,751)</u>
Debt service				
Interest and fiscal charges	118,959	118,959	118,959	-
Total expenditures	<u>21,021,209</u>	<u>21,468,354</u>	<u>21,105,298</u>	<u>(363,056)</u>
Revenue over expenditures	<u>(216,971)</u>	<u>159,011</u>	<u>476,445</u>	<u>317,434</u>
Other financing sources (uses)				
Proceeds from sale of capital assets	-	-	1,500	1,500
Transfers out	(264,821)	(295,131)	(283,893)	11,238
Total other financing uses	<u>(264,821)</u>	<u>(295,131)</u>	<u>(282,393)</u>	<u>12,738</u>
Net change in fund balance	(481,792)	(136,120)	194,052	330,172
Fund balances, beginning of year	<u>983,710</u>	<u>983,710</u>	<u>983,710</u>	<u>-</u>
Fund balances, end of year	<u>\$ 501,918</u>	<u>\$ 847,590</u>	<u>\$ 1,177,762</u>	<u>\$ 330,172</u>

The accompanying notes are an integral part of these financial statements.

MILAN AREA SCHOOLS
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2008

	Private- Purpose Trust Fund	
	Scholarships	Agency Funds
Assets		
Cash and cash equivalents	\$ 25,490	\$ 388,720
Liabilities		
Due to student groups	-	\$ 388,720
Net assets		
Unrestricted	\$ 25,490	

The accompanying notes are an integral part of these financial statements.

MILAN AREA SCHOOLS
Statement of Changes in Fiduciary Net Assets
Private-Purpose Trust Fund
For the Year Ended June 30, 2008

	<u>Scholarships</u>
Additions	
Earnings on deposits and investments	\$ 993
Deductions	
Scholarships	<u>3,124</u>
Decrease in net assets	(2,131)
Net assets, beginning of year	<u>27,621</u>
Net assets, end of year	<u><u>\$ 25,490</u></u>

The accompanying notes are an integral part of these financial statements.

NOTES to the FINANCIAL STATEMENTS

MILAN AREA SCHOOLS

Notes to the Financial Statements

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting entity

The Milan Area Schools (the “District”) has followed the guidelines of the Governmental Accounting Standards Board’s Statements No. 14 and No. 39 and has determined that no entities should be consolidated into its basic financial statements as component units. Therefore, the reporting entity consists of the primary government financial statements only. The criteria for including a component unit include significant operational or financial relationships with the District.

B. District-wide and fund financial statements

The District-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The District had no *business-type activities* during the year ended 2008.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the District-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting, and financial statement presentation

The District-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the fiduciary fund financial statements, except for agency funds, which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

MILAN AREA SCHOOLS

Notes to the Financial Statements

Governmental fund financial statements are reported using the *current financial resources measurement* focus and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, intergovernmental revenue, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The District reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *2002 debt service fund* accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest payments on the 2002 refinanced bonds.

Additionally, the District reports the following fund types:

The *special revenue funds* are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes, where there is a need to determine the results of operations, specifically, athletics and food service.

The *debt service funds* are used to account for the accumulation of resources for, and the payment of, long-term debt principal, interest, and related costs.

The *capital projects funds* are used to account for financial resources to be used for the acquisition or construction of major capital facilities and improvements.

The *private-purpose trust funds* account for amounts entrusted to the District for scholarship awards and similar trust activities.

The *agency funds* account for assets held for student activity groups and organizations and are custodial in nature.

MILAN AREA SCHOOLS

Notes to the Financial Statements

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the District-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

D. Assets, liabilities and equity

1. Deposits and investments

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Investments for the District are reported at fair value.

2. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds". These interfund balances resulted primarily from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

3. Inventories and prepaid items

All inventories are valued at cost using the first-in/first out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both District-wide and fund financial statements.

MILAN AREA SCHOOLS

Notes to the Financial Statements

4. *Capital assets*

Capital assets, which include property and equipment, are reported in the governmental activities column in the District-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Capital assets of the primary government are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land improvements	10-20
Buildings and improvements	25-50
Equipment	5-20
Licensed vehicles	8

5. *Compensated absences*

It is the District's policy to permit employees to accumulate various earned but unused vacation and sick pay benefits. These are accrued when incurred in the District-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements.

Employees accrue 10-13 days of sick leave, per year, which accumulates if not used. Sick time is paid upon termination only to employees who have ten or more years of service with the District. The maximum payout upon termination varies, depending on the employee's classification (teacher, administrator, etc.).

Administrators and other support staff working year-round accrue vacation time in varying amounts. Teachers and other personnel working less than twelve months during the year do not receive paid vacation time, but are paid only for the number of days they are required to work each year. Upon termination, an employee may elect to receive the unused portion of his/her vacation time in cash.

MILAN AREA SCHOOLS

Notes to the Financial Statements

6. *Long-term obligations*

In the District-wide financial statements, long-term obligations are reported as liabilities in the governmental activities statement of net assets. Where applicable, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received in debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual proceeds received, are reported as debt service expenditures.

7. *Fund equity*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary information

The General and Special Revenue funds are under formal budgetary control. Budgets shown in the financial statements are adopted annually on a basis consistent with generally accepted accounting principles (GAAP), and are not significantly different from the modified accrual basis used to reflect actual results, and consist only of those amounts contained in the formal budget as originally adopted or as amended by the Board of Education. The budgets for the General and Special Revenue Funds are adopted on a functional basis.

All annual appropriations lapse at fiscal year end.

MILAN AREA SCHOOLS

Notes to the Financial Statements

B. Excess of expenditures over appropriations

P. A. 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amounts appropriated. During the year ended June 30, 2008, the government incurred expenditures in excess of the amounts appropriated at the legal level of budgetary control as follows:

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund -			
Instruction -			
Adult and continuing education	\$ 195,723	\$ 197,887	\$ 2,164

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and investments

A reconciliation of cash and investments as shown on the Statement of Net Assets and Statement of Fiduciary Net Assets follows:

Statement of Net Assets

Cash and cash equivalents	\$ 4,092,993
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Statement of Fiduciary Net Assets

Cash and cash equivalents	<u>414,210</u>
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\$ 4,507,203

Cash on hand	\$ 300
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Deposits	2,803,222
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Investments	<u>1,703,681</u>
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\$ 4,507,203

Statutory Authority

Michigan law authorizes the District to deposit and invest in:

- (a) Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State. In a primary or fourth class school district, the bonds, bills, or notes shall be payable at the option of the holder upon not more than 90 days notice or, if not so payable, shall have maturity dates not more than 5 years after the purchase dates.

MILAN AREA SCHOOLS

Notes to the Financial Statements

- (b) Certificates of deposit insured by a State or national bank, savings accounts of a state or federal savings and loan association, or certificates of deposit or share certificates of a state or federal credit union organized and authorized to operate in this State.
- (c) Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
- (d) Securities issued or guaranteed by agencies or instrumentalities of the United States government or federal agency obligation repurchase agreements, and bankers' acceptance issued by a bank that is a member of the federal deposit insurance corporation.
- (e) Mutual funds composed entirely of investment vehicles that are legal for direct investment by a school district.
- (f) Investment pools, as authorized by the surplus funds investment pool act, composed entirely of instruments that are legal for direct investment by a school district.

The District's investment policy allow for all of these types of investments.

Investments

The District chooses to disclose its investments by specifically identifying each. As of year end, the District had the following investments:

<u>Deposit/Investment</u>	<u>Maturity</u>	<u>Fair Value</u>	<u>Rating</u>
Chase Money Market Fund	n/a	\$ 186,275	n/a
Michigan Liquid Asset Fund (MILAF)	n/a	1,028,018	S&P-AAAm
US Bank Money Market Fund	n/a	489,388	n/a
		<u><u>\$ 1,703,681</u></u>	

MILAN AREA SCHOOLS

Notes to the Financial Statements

Deposit and investment risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified above. The District's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments above. The District's investment policy does not have specific limits in excess of state law on investment credit risk. Credit risk ratings on investments are noted above.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. State law does not require and the District does not have a policy for deposit custodial credit risk. As of year end, \$2,662,851 of the District's bank balance of \$2,864,693 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk – Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the District does not have a policy for investment custodial credit risk. None of the District's investments are subject to custodial credit risk because their existence is not evidenced by securities that exist in physical or book form.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments above. The District's investment policy does not have specific limits in excess of state law on concentration of credit risk. All investments held at year end are reported above.

B. Receivables

Receivables as of year end for the District's individual major funds and nonmajor funds in the aggregate, are as follows:

	General	Other Governmental Funds	Totals
Accounts receivable	\$ 222,723	\$ 8,655	\$ 231,378
Due from other governments	3,292,356	206,030	3,498,386
	<u>\$ 3,515,079</u>	<u>\$ 214,685</u>	<u>\$ 3,729,764</u>

MILAN AREA SCHOOLS

Notes to the Financial Statements

C. Capital assets

Capital assets activity for the year ended June 30, 2008 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets not being depreciated:				
Land	\$ 1,607,945	-	-	\$ 1,607,945
Capital assets being depreciated:				
Land improvements	5,585,757	-	-	5,585,757
Buildings and improvements	58,332,137	7,679	-	58,339,816
Equipment	2,966,167	-	-	2,966,167
Vehicles	1,151,079	76,647	44,144	1,183,582
Total capital assets being depreciated	68,035,140	84,326	44,144	68,075,322
Less accumulated depreciation for:				
Land improvements	2,582,173	211,330	-	2,793,503
Buildings and improvements	8,850,443	1,087,481	-	9,937,924
Equipment	1,936,227	273,722	-	2,209,949
Vehicles	759,844	96,314	44,144	812,014
Total accumulated depreciation	14,128,687	1,668,847	44,144	15,753,390
Total capital assets being depreciated, net	53,906,453	(1,584,521)	-	52,321,932
Governmental activities capital assets, net	\$ 55,514,398	\$ (1,584,521)	\$ -	\$ 53,929,877

Depreciation expense of \$1,668,847 was charged to the function "Unallocated Depreciation," and not allocated to other functions.

MILAN AREA SCHOOLS

Notes to the Financial Statements

D. Payables

Accounts payable and accrued liabilities as of year end for the District's individual major funds and nonmajor funds in the aggregate, are as follows:

	<u>General</u>	<u>2002 Debt Service</u>	<u>Other Governmental Funds</u>	<u>Totals</u>
Accounts payable	\$ 133,574	\$ 37,555	\$ 18,388	\$ 189,517
Accrued expenditures	92,591	-	-	92,591
Salaries and benefits payable	1,945,459	-	34,682	1,980,141
	<u>\$ 2,171,624</u>	<u>\$ 37,555</u>	<u>\$ 53,070</u>	2,262,249
Accrued interest on long-term debt				<u>376,280</u>
Governmental activities				<u>\$ 2,638,529</u>

E. Interfund receivables, payables and transfers

At June 30, 2008, interfund receivables and payables consisted of the following:

	<u>Due from</u>	<u>Due to</u>
General Fund	\$ 49,191	\$ 6,709
Nonmajor governmental funds	<u>6,709</u>	<u>49,191</u>
	<u>\$ 55,900</u>	<u>\$ 55,900</u>

The District often reports interfund balances between many of its funds. These interfund balances resulted primarily from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

MILAN AREA SCHOOLS

Notes to the Financial Statements

For the year ended June 30, 2008, interfund transfers consisted of the following:

	<u>Transfers out</u>	<u>Transfers in</u>
General Fund	\$ 283,893	\$ -
Nonmajor governmental funds	<u>-</u>	<u>283,893</u>
	<u>\$ 283,893</u>	<u>\$ 283,893</u>

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

For the year ended June 30, 2008, the District transferred funds to subsidize the athletics program.

F. Long-term debt

The following is a summary of bond, note, and compensated absence transactions of the District for the year ended June 30, 2008:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities					
General Obligation bonds	\$ 53,574,057	\$ -	\$ 2,260,000	\$ 51,314,057	\$ 2,370,934
Less:					
Unamortized bond issuance costs	(398,626)	-	(31,936)	(366,690)	-
Unamortized loss on refunding	(2,497,387)	-	(166,390)	(2,330,997)	-
Unamortized bond proceeds	131,131	-	21,855	109,276	-
School Bond loan fund	7,825,065	353,105	25,662	8,152,508	-
Compensated absences	798,433	-	31,175	767,258	-
Early retirement incentives	90,000	162,000	90,000	162,000	30,000
	<u>\$ 59,522,673</u>	<u>\$ 515,105</u>	<u>\$ 2,230,366</u>	<u>\$ 57,807,412</u>	<u>\$ 2,400,934</u>

Compensated absences and early retirement incentives are typically liquidated by the general fund.

MILAN AREA SCHOOLS

Notes to the Financial Statements

Bonds payable at June 30, 2008, are comprised of the following issues:

General Obligation Bonds:

* \$286,311 1998 Durant School Improvement Bonds, due in annual installments of \$15,934 to \$98,126 through 2013; interest at 4.80%	\$ 169,057
\$49,915,000 2000 New construction of high school and remodeling to all existing buildings, due in annual installments at \$1,025,000 to \$1,150,000 through 2010; interest at 5.62% to 5.75%	2,225,000
2002 Refunding Bonds, due in annual installments of \$210,000 to \$2,290,000 through 2030; interest at 4.418%	43,580,000
2003 Refunding Bonds, due in annual installments of \$1,025,000 to \$1,070,000 through 2013, interest at 3.0% to 4.0%.	<u>5,340,000</u>
	<u>\$ 51,314,057</u>

- * The Durant School Improvement Bonds are serviced from funds made available to Michigan School Districts by an annual appropriation by the Michigan State Legislature. If the Legislature does not appropriate the funding required, the District is not liable to pay the debt service.

Annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ending	Principal	Interest	Total
2009	\$ 2,370,934	\$ 2,258,723	\$ 4,629,657
2010	2,563,126	2,181,842	4,744,968
2011	2,597,487	2,033,241	4,630,728
2012	2,703,319	1,922,854	4,626,173
2013	2,809,191	1,810,472	4,619,663
2014-2018	9,760,000	7,629,222	17,389,222
2019-2023	11,785,000	5,286,360	17,071,360
2024-2028	12,110,000	2,610,154	14,720,154
2029-2030	<u>4,615,000</u>	<u>305,062</u>	<u>4,920,062</u>
	<u>\$ 51,314,057</u>	<u>\$ 26,037,930</u>	<u>\$ 77,351,987</u>

MILAN AREA SCHOOLS

Notes to the Financial Statements

Interest Rate Swap. The District has entered into an interest rate swap agreement (the "Swap") in order to modify interest rates in connection with its 2002 refunding bonds. The notional amount of the swap is \$43,580,000 as of June 30, 2008. The notional amount of the Swap declines according to the amortization schedule of the bonds payable. The Swap was entered into on September 6, 2002, and the stated termination date is May 1, 2030. Under the terms of the Swap, the District effectively pays interest calculated at a fixed rate of 4.103% to the lender, UBS Investment Bank.

The School Bond Loan Fund represents amounts borrowed from the State of Michigan School Bond loan program to supplement property tax revenue for making payments on the District's general obligation bonds. Although interest accrues each year, no payment is due until such time as the District's property tax revenue is sufficient to support the Debt Service requirements on the general obligation bonds. Changes to the School Bond Loan Fund for the year ended June 30, 2008, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Beginning balance	\$ 6,764,888	\$ 1,060,177	\$ 7,825,065
Additions	-	353,105	353,105
Reductions	-	(25,662)	(25,662)
Ending balance	<u>\$ 6,764,888</u>	<u>\$ 1,387,620</u>	<u>\$ 8,152,508</u>

At June 30, 2008, the balance of the year 2000 bonds considered to be defeased is \$40,765,000.

G. Short-Term Debt

During the year, the District financed certain of its operations through the issuance of property tax and State Aid Anticipation Notes. These notes were issued for terms of less than one year, and accordingly are recorded as liabilities of the respective funds from which they were issued.

Changes in short-term state aid notes for the year ended June 30, 2008, were as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
State aid note	<u>\$ 3,500,000</u>	<u>\$ 3,000,000</u>	<u>\$ 3,500,000</u>	<u>\$3,000,000</u>

The state aid note is due August 20, 2008 and carries an interest rate of 3.68%. Interest in the amount of \$110,400 has been accrued at June 30, 2008. On August 20, 2008 the District borrowed on another state aid note in the amount of \$3,000,000, which carries an interest rate of 1.70%, and is due August 20, 2009.

MILAN AREA SCHOOLS

Notes to the Financial Statements

IV. OTHER INFORMATION

A. Risk management

The District is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation), as well as medical benefits provided to employees. The District has purchased commercial insurance for general liability, property and casualty and health claims and is self-insured for claims relating to employee injuries/workers' compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

An independent third party administers the District's self-insured workers' compensation program.

Changes in the balances of claims liabilities during the past two years are as follows:

	<u>2008</u>	<u>2007</u>
Accrued claims, beginning of year	\$ 87,000	\$ 87,000
Incurred claims	484,055	518,582
Claim payments	<u>(484,055)</u>	<u>(518,582)</u>
Accrued claims, end of year	<u>\$ 87,000</u>	<u>\$ 87,000</u>

B. Property taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied as of July 1 and December 1, and are due upon receipt of the billing by the taxpayer. The actual due dates are September 14, and February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity. School District property tax revenues are recognized when levied to the extent that they result in current receivables (collected within sixty days after year end). Amounts received subsequent to August 31 are recognized as revenue when collected.

C. Defined benefit pension plan

Plan Description

The Milan Area Schools contributes to the Michigan Public School Employees Retirement System (MPSERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of Michigan Department of Management and Budget, Office of Retirement Systems. MPSERS provides retirement, survivor and disability benefits, and death benefits to plan members and beneficiaries. Benefit provisions are established and must be amended by state statute.

MILAN AREA SCHOOLS

Notes to the Financial Statements

The Office of Retirement Systems issues a publicly available financial report that includes financial statements and required supplementary information for MPSERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, 7150 Harris Drive, P.O. Box 30171, Lansing, Michigan, 48909 or by calling 1-800-381-5111.

Funding Policy

Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute at a permanently fixed rate of 3.9% of gross wages. Members first hired January 1, 1990 or later contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000. Basic Plan members make no contributions. The Milan Area Schools is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefits on a cash disbursement basis.

The current rate is 16.72% of annual covered payroll. The contribution requirements of plan members and the Milan Area Schools are established by Michigan State statute and may be amended only by action of the State Legislature. The School District's contributions to MPSERS for the years ended June 30, 2008, 2007 and 2006 were \$2,173,894, \$2,181,674 and \$1,955,994, respectively, equal to the required contributions for each year.

Other Postemployment Benefits

Retirees have the option of health coverage, which is funded on a cash disbursement basis by the employers. The State of Michigan has contracted to provide the comprehensive group medical, hearing, dental and vision coverages for retirees and beneficiaries. All health care benefits are on a self-funded basis. A significant portion of the premium is paid by MPSERS with the balance deducted from the monthly pension.

Pension recipients are eligible for fully paid Master Health Plan coverage and 90% paid Dental Plan, Vision Plan and Hearing Plan coverage with the following exceptions:

1. Retirees not yet eligible for Medicare coverage pay an amount equal to the Medicare Part B premiums.
2. Retirees with less than 30 years of service, who terminate employment after October 31, 1980 with the vested deferred benefits, are eligible for partially employer paid health benefit coverage (no payment if less than 21 years of service).

MILAN AREA SCHOOLS

Notes to the Financial Statements

D. Sinking Fund

The Sinking Fund Capital Project Fund records capital project activities funded with Sinking Fund millage. For this fund, the District has complied with the applicable provisions of §1212(1) of the Michigan Revised School Code and the applicable section of the Revised Bulletin for School District Audits of Bonded Construction Funds and Sinking Funds in Michigan.

* * * * *

COMBINING and INDIVIDUAL FUND
FINANCIAL STATEMENTS

MILAN AREA SCHOOLS
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2008

<u>ASSETS</u>	Special Revenue		2000 Debt Service
	Athletics	Food Service	
Assets			
Cash and cash equivalents	\$ 7,434	\$ 47,377	\$ 44,128
Accounts receivable	8,655	-	-
Due from other governments	-	36,973	-
Due from other funds	-	6,709	-
Inventory	-	17,680	-
Prepaid expenditures	-	50,000	-
<u>TOTAL ASSETS</u>	<u>\$ 16,089</u>	<u>\$ 158,739</u>	<u>\$ 44,128</u>
 <u>LIABILITIES AND FUND BALANCES</u>			
Liabilities			
Accounts payable	\$ -	\$ 18,388	\$ -
Salaries and benefits payable	-	34,682	-
Due to other funds	-	49,191	-
Deferred revenue	-	4,188	-
Total liabilities	-	106,449	-
Fund balances (deficit)			
Reserved for inventory	-	17,680	-
Reserved for prepaid expenditures	-	50,000	-
Unreserved, undesignated (deficit)	16,089	(15,390)	44,128
Total fund balances	16,089	52,290	44,128
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u>\$ 16,089</u>	<u>\$ 158,739</u>	<u>\$ 44,128</u>

<u>Debt Service</u>		<u>Capital Projects</u>	
<u>2003 Debt Service</u>	<u>Durant Debt Service</u>	<u>Sinking Fund</u>	<u>Total</u>
\$ 7,806	\$ -	\$ 3,421	\$ 110,166
-	-	-	8,655
-	169,057	-	206,030
-	-	-	6,709
-	-	-	17,680
-	-	-	50,000
<u>\$ 7,806</u>	<u>\$ 169,057</u>	<u>\$ 3,421</u>	<u>\$ 399,240</u>
\$ -	\$ -	\$ -	\$ 18,388
-	-	-	34,682
-	-	-	49,191
-	169,057	-	173,245
<u>-</u>	<u>169,057</u>	<u>-</u>	<u>275,506</u>
-	-	-	17,680
-	-	-	50,000
7,806	-	3,421	56,054
<u>7,806</u>	<u>-</u>	<u>3,421</u>	<u>123,734</u>
<u>\$ 7,806</u>	<u>\$ 169,057</u>	<u>\$ 3,421</u>	<u>\$ 399,240</u>

MILAN AREA SCHOOLS
Combining Statement of Revenue, Expenditures,
and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2008

	<u>Special Revenue</u>		<u>2000</u>
	<u>Athletics</u>	<u>Food Service</u>	<u>Debt Service</u>
Revenue			
Local sources:			
Taxes	\$ -	\$ -	\$ 1,099,399
Earnings from investments and deposits	-	4,511	17,267
Food sales	-	573,062	-
Athletic admissions	172,026	-	-
Other local revenue	-	885	-
State aid	-	59,244	-
Federal sources	-	254,825	-
Total revenue	<u>172,026</u>	<u>892,527</u>	<u>1,116,666</u>
Expenditures			
Food service activities	-	874,104	-
Athletic programs	447,878	-	-
Debt service:			
Principal repayment	-	-	1,025,000
Interest and fiscal charges	-	-	212,223
Total expenditures	<u>447,878</u>	<u>874,104</u>	<u>1,237,223</u>
Revenue over (under) expenditures	<u>(275,852)</u>	<u>18,423</u>	<u>(120,557)</u>
Other financing sources (uses)			
Transfers in	<u>283,482</u>	<u>411</u>	<u>-</u>
Net change in fund balances	7,630	18,834	(120,557)
Fund balances, beginning of year	<u>8,459</u>	<u>33,456</u>	<u>164,685</u>
Fund balances, end of year	<u><u>\$ 16,089</u></u>	<u><u>\$ 52,290</u></u>	<u><u>\$ 44,128</u></u>

<u>Debt Service</u>		<u>Capital Projects</u>	
2003			
<u>Debt Service</u>	<u>Durant Debt Service</u>	<u>Sinking Fund</u>	<u>Total</u>
\$ 1,318,110	\$ -	\$ 16	\$ 2,417,525
-	-	99	21,877
-	-	-	573,062
-	-	-	172,026
12,901	-	14	13,800
-	-	-	59,244
-	-	-	254,825
<u>1,331,011</u>	<u>-</u>	<u>129</u>	<u>3,512,359</u>
-	-	-	874,104
-	-	-	447,878
1,025,000	-	-	2,050,000
<u>234,725</u>	<u>-</u>	<u>-</u>	<u>446,948</u>
<u>1,259,725</u>	<u>-</u>	<u>-</u>	<u>3,818,930</u>
<u>71,286</u>	<u>-</u>	<u>129</u>	<u>(306,571)</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>283,893</u>
71,286	-	129	(22,678)
<u>(63,480)</u>	<u>-</u>	<u>3,292</u>	<u>146,412</u>
<u>\$ 7,806</u>	<u>\$ -</u>	<u>\$ 3,421</u>	<u>\$ 123,734</u>

MILAN AREA SCHOOLS
Combining Statement of Fiduciary Net Assets
Agency Funds
June 30, 2008

	Agency Funds			
	Elementary School Activities	Middle School Activities	High School Activities	Total
Assets				
Cash and cash equivalents	\$ 148,000	\$ 86,306	\$ 154,414	\$ 388,720
Liabilities				
Due to student groups	\$ 148,000	\$ 86,306	\$ 154,414	\$ 388,720

MILAN AREA SCHOOLS
Statement of Changes in Assets and Liabilities
Agency Funds
For the Year Ended June 30, 2008

	<u>Beginning of Year</u>	<u>Additions</u>	<u>Deductions</u>	<u>End of Year</u>
Elementary School Activities				
Assets				
Cash and cash equivalents	<u>\$ 152,127</u>	<u>\$ 273,943</u>	<u>\$ 278,070</u>	<u>\$ 148,000</u>
Liabilities				
Due to student groups	<u>\$ 152,127</u>	<u>\$ 273,943</u>	<u>\$ 278,070</u>	<u>\$ 148,000</u>
Middle School Activities				
Assets				
Cash and cash equivalents	<u>\$ 103,958</u>	<u>\$ 124,027</u>	<u>\$ 141,679</u>	<u>\$ 86,306</u>
Liabilities				
Due to student groups	<u>\$ 103,958</u>	<u>\$ 124,027</u>	<u>\$ 141,679</u>	<u>\$ 86,306</u>
High School Activities				
Assets				
Cash and cash equivalents	<u>\$ 138,755</u>	<u>\$ 417,178</u>	<u>\$ 401,519</u>	<u>\$ 154,414</u>
Liabilities				
Due to student groups	<u>\$ 138,755</u>	<u>\$ 417,178</u>	<u>\$ 401,519</u>	<u>\$ 154,414</u>
Total - All Activities				
Assets				
Cash and cash equivalents	<u>\$ 394,840</u>	<u>\$ 815,148</u>	<u>\$ 821,268</u>	<u>\$ 388,720</u>
Liabilities				
Due to student groups	<u>\$ 394,840</u>	<u>\$ 815,148</u>	<u>\$ 821,268</u>	<u>\$ 388,720</u>

SINGLE AUDIT

MILAN AREA SCHOOLS
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2008

Federal Grantor/ Pass-Through Grantor/ Program Title	CFDA Number	Pass- Through Grantor's Number	Approved Award/Grant Amount	Accrued Revenue Beginning of Year	Current Year Receipts	Current Year Expenditures	Accrued Revenue End of Year
U.S. Department of Agriculture							
Direct Program - Food Distribution:							
Entitlement Commodities	10.550	-n/a-	\$ 44,234	\$ -	\$ 39,700	\$ 39,700	\$ -
Bonus Commodities	10.550	-n/a-	78	-	78	78	-
				-	39,778	39,778	-
Passed-through Michigan Department of Education:							
2007-2008 School Breakfast	10.553	071970	2,539	-	2,539	2,539	-
2007-2008 School Breakfast	10.553	081970	24,082	-	19,012	24,082	5,070
				-	21,551	26,621	5,070
National School Lunch:							
2007-2008 Section 4	10.555	071950	5,128	-	5,128	5,128	-
2007-2008 Section 4	10.555	081950	39,409	-	34,193	39,409	5,216
2007-2008 Section 11	10.555	071960	15,226	-	15,226	15,226	-
2007-2008 Section 11	10.555	081960	128,663	-	101,975	128,663	26,688
				-	156,522	188,426	31,904
Total U.S. Department of Agriculture				-	217,851	254,825	36,974
U.S. Department of Education							
Passed-through Michigan Department of Education:							
2006-2007 Adult Basic Education Instruction	84.002	071130-710667	5,000	1,344	1,344	-	-
2007-2008 Adult Basic Education Instruction	84.002	081130-810667	15,000	-	10,885	14,484	3,599
2006-2007 ABE Institutional Programs	84.002	071190-710667	125,000	32,820	32,820	-	-
2007-2008 ABE Institutional Programs	84.002	081190-810667	95,000	-	57,389	95,000	37,611
				34,164	102,438	109,484	41,210
2006-2007 Title I, Part A	84.010	071530-0607	69,679	20,703	20,703	-	-
2007-2008 Title I, Part A	84.010	081530-0708	81,261	-	55,991	81,261	25,270
				20,703	76,694	81,261	25,270
2007-2008 Title V, Part A	84.298	080250-0708	495	-	495	495	-
2006-2007 Title II, Part D	84.318	074290-0607	715	715	715	-	-
2007-2008 Title II, Part D	84.318	084290-0708	764	-	764	764	-
2007-2008 Title II, Part D, Carryforward	84.318	084250-0708	2,000	-	2,000	501	(1,499)
				715	3,479	1,265	(1,499)
2006-2007 Reading First Statewide Activities	84.357	072910-0607C	122,065	47,384	47,384	-	-
2005-2006 Title II, Part A	84.367	060520-0607	4,507	1,670	1,670	-	-
2006-2007 Title II, Part A	84.367	070520-0607	62,313	16,760	16,760	-	-
2007-2008 Title II, Part A	84.367	080520-0708	63,116	-	34,605	57,251	22,646
				18,430	53,035	57,251	22,646

continued...

MILAN AREA SCHOOLS
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2008

Federal Grantor/ Pass-Through Grantor/ Program Title	CFDA Number	Pass- Through Grantor's Number	Approved Award/Grant Amount	Accrued Revenue Beginning of Year	Current Year Receipts	Current Year Expenditures	Accrued Revenue End of Year
U.S. Department of Education (concluded)							
Passed-through Livingston Educational Service Agency:							
2007-2008 Drug-Free Schools	84.186	SDFSCA	5,645	\$ -	\$ 5,645	\$ 5,645	\$ -
Passed-through Washtenaw Intermediate School District:							
2006-2007 IDEA Flowthrough	84.027A	070450-0607	474,224	171,136	171,136	-	-
2007-2008 IDEA Flowthrough	84.027A	080450-0708	476,018	-	319,621	461,115	141,494
				<u>171,136</u>	<u>490,757</u>	<u>461,115</u>	<u>141,494</u>
2006-2007 Preschool Incentive	84.173	070460-0607	18,287	6,585	6,585	-	-
2007-2008 Preschool Incentive	84.173	080460-0708	22,248	-	15,180	22,248	7,068
				<u>6,585</u>	<u>21,765</u>	<u>22,248</u>	<u>7,068</u>
2006-2007 IDEA Part C, Early On	84.181A	071340-190	11,148	3,170	3,170	-	-
2007-2008 IDEA Part C, Early On	84.181A	081340-190	11,148	-	8,361	11,148	2,787
				<u>3,170</u>	<u>11,531</u>	<u>11,148</u>	<u>2,787</u>
Total U.S. Department of Education				<u>302,287</u>	<u>813,223</u>	<u>749,912</u>	<u>238,976</u>
Total Expenditures of Federal Awards				<u>\$ 302,287</u>	<u>\$ 1,031,074</u>	<u>\$ 1,004,737</u>	<u>\$ 275,950</u>

- Expenditures in this schedule are in agreement with amounts reported in the financial statements and the financial reports submitted to the MDE.
- The amounts reported on the R7120 (Grants Section Auditor's Report) reconcile with this schedule.
- The amounts reported on the Recipient Entitlement Balance (PAL) Report agree with this schedule for USDA donated food commodities and are reported in the current year receipts column.
- Expenditures include spoilage or pilferage.

MILAN AREA SCHOOLS

Notes To Schedule Of Expenditures Of Federal Awards

1. SECTION I - SUMMARY OF AUDITORS' RESULTS

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal awards programs of Milan Area Schools (the "District"). Federal awards received directly from federal agencies, as well as federal awards passed through other government agencies, are included on the Schedule.

The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

The reporting entity of Milan Area Schools is defined in Note I of the District's basic financial statements.

2. BASIS OF ACCOUNTING

The accompanying Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting which is described in Note I of the District's basic financial statements.



REHMANN ROBSON

Certified Public Accountants

A member of **THE REHMANN GROUP**



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

October 15, 2008

Board of Education
Milan Area Schools
Milan, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of **MILAN AREA SCHOOLS** as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 15, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Milan Area School's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. Our report did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Milan Area Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

However, we noted other matters involving the internal control over compliance, financial reporting and/or operating efficiency that we have reported to management of Milan Area Schools in a separate letter dated October 15, 2008.

This report is intended solely for the information and use of the audit committee, management, the Board of Education, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM
AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133**

October 15, 2008

Board of Education
Milan Area Schools
Milan, Michigan

Compliance

We have audited the compliance of **MILAN AREA SCHOOLS** with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. Milan Area Schools' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Milan Area Schools' management. Our responsibility is to express an opinion on Milan Area Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Milan Area Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Milan Area Schools' compliance with those requirements.

In our opinion, Milan Area Schools complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

The management of Milan Area Schools is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Milan Area School's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the audit committee, management, the Board of Education, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Lohman". The signature is written in a cursive style with a large, prominent 'L' at the beginning.

MILAN AREA SCHOOLS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2008

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:

Unqualified

Internal control over financial reporting:

Material weakness(es) identified?

_____ yes X no

Significant deficiency(ies) identified
not considered to be material weaknesses?

_____ yes X none reported

Noncompliance material to financial statements
noted?

_____ yes X no

Federal Awards

Internal Control over major programs:

Material weakness(es) identified?

_____ yes X no

Significant deficiency(ies) identified
not considered to be material weaknesses?

_____ yes X none reported

Type of auditors' report issued on compliance
for major programs:

Unqualified

Any audit findings disclosed that are required
to be reported in accordance with
Circular A-133, Section 510(a)?

_____ yes X no

MILAN AREA SCHOOLS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Concluded)

FOR THE YEAR ENDED JUNE 30, 2008

SECTION I - SUMMARY OF AUDITORS' RESULTS (Concluded)

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.027, 84.173	Special Education Cluster
Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$300,000</u>
Auditee qualified as low-risk auditee?	<u> X </u> yes <u> </u> no

SECTION II – FINANCIAL STATEMENT FINDINGS

No matters were reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

SECTION IV – PRIOR YEAR FINDINGS

No matters were reported.

* * * * *



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP



October 15, 2008

To the Board of Education of the
Milan Area Schools

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the *Milan Area Schools* (the “District”) for the year ended June 30, 2008, and have issued our report thereon dated October 15, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and OMB Circular A-133

As stated in our engagement letter dated July 10, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered the District’s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the District’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the District’s compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on the District’s compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the District’s compliance with those requirements.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on July 17, 2008.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the District are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.
- Management's estimate of the accrued compensated absences is based on current hourly rates and policies regarding payment of sick and vacation banks.

We evaluated the key factors assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. There were no misstatements identified during the audit.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 15, 2008.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the governing body and management of the Milan Area Schools and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style with a large initial 'L'.

Milan Area Schools

Comments and Recommendations

For the Year Ended June 30, 2008

In planning and performing our audit of the financial statements of the Milan Area Schools as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

Other Matters

Bank Reconciliations

Deposit and investment bank reconciliations are completed by an individual that also has general ledger access. To help strengthen internal controls over the reconciliation process, we suggest that a District employee independent of this reconciliation process review, initial and date their review on all deposit and investment bank reconciliations.

Bank Transfers

Interbank and wire transfers are completed by the same individual that does bank reconciliations. We suggest that an individual independent of the bank reconciliation procedure approve and document this approval on all interbank and wire transfers before the transfer is made.

Milan Area Schools

Comments and Recommendations (Continued)

For the Year Ended June 30, 2008

Moveable Assets

Periodic counts of moveable capital assets is a key element of capital asset management. Currently, these assets are inventoried on a periodic basis at the High School. However, a periodic inventory of these assets is not performed at the other building locations. Accordingly, we recommend that all buildings in the District perform periodic verification of moveable assets against underlying detail accounting records.

Athletic Event Cash Procedures

During the previous audit it was suggested that the District implement a standard form that provides for beginning and ending ticket numbers, signatures of the cashiers, and a tally of cash collected that can be used for central office oversight and monitoring. This procedure has been implemented by the District. During review of these forms it was noted that the Athletic Director was completing the form with the Athletic Secretary verifying the total amount. To enhance internal controls we suggest that the Athletic Secretary document her review on the current form that the calculated amount on the form is consistent with the underlying deposit slip, or alternatively, a business office employee could do the verification/initial.

Early Childhood Cash Receipts

During testing it was noted that reconciliations for the Early Childhood are not reviewed by an individual that is independent of the receipting function. We also note that cash in the form of currency is accepted as payment. We suggest that the District implement a review procedure for the reconciliation of Early Childhood receipts, and that the District consider not accepting currency as a payment for Early Childhood services.

Food Services Cash Receipts

A "cash accounting" form is used at food service locations when cashing out the registers. This form is presently not signed by the preparer, nor the reviewer. In order to enhance the internal controls in this area, we recommend that the preparer and reviewer document these key processes by initialing and dating the cash accounting forms.

Purchase Order System

Milan Area Schools uses a purchase order (PO) system for most procurements. . During testing it was noted that many PO's are approved after the date of the actual invoice. In order not to jeopardize the integrity of the PO system, we suggest that all PO's be approved before the purchase of the item.

Milan Area Schools

Comments and Recommendations (Concluded)

For the Year Ended June 30, 2008

Information Technology Passwords

Passwords in the accounting application are not changed on a regular basis. In order to reduce the risk of access to computer files by unauthorized personnel, we recommend that the District institute a policy that requires passwords to be changed on a regular basis. This should be written into the end-user computer policy and added as an automatic expiration of passwords if the application offers that capability.

Username and password are a key control for limiting access to an organization's network and financial reporting system. Passwords should be forced by the system to be at least eight characters with a combination of letters, numbers and special characters. Currently, the District does not force either of these controls at the network or financial application level. We recommend that the network and accounting system be set to force complex passwords.

* * * * *

FORM **SF-SAC**
(8-6-2008)U.S. DEPT. OF COMM.— Econ. and Stat. Admin.— U.S. CENSUS BUREAU
ACTING AS COLLECTING AGENT FOR
OFFICE OF MANAGEMENT AND BUDGET**Data Collection Form for Reporting on
AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS
for Fiscal Year Ending Dates in 2008, 2009, or 2010**

▶ Complete this form, as required by OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations."

PART 1**GENERAL INFORMATION (To be completed by auditee, except for Items 6, 7, and 8)**

1. Fiscal period ending date for this submission		2. Type of Circular A-133 audit	3. Audit period covered
Month 06	Day 30	Year 2008	
		1 <input checked="" type="checkbox"/> Single audit 2 <input type="checkbox"/> Program-specific audit	1 <input checked="" type="checkbox"/> Annual 3 <input type="checkbox"/> Other — <input type="text"/> Months 2 <input type="checkbox"/> Biennial

4. Auditee Identification Numbers

a. Primary Employer Identification Number (EIN)

3	8	—	6	0	0	4	1	2	4
---	---	---	---	---	---	---	---	---	---

d. Data Universal Numbering System (DUNS) Number

		—			—			
--	--	---	--	--	---	--	--	--

b. Are multiple EINs covered in this report? 1 ☐ Yes 2 ☒ No

e. Are multiple DUNS covered in this report? 1 ☐ Yes 2 ☒ No

c. If Part I, Item 4b = "Yes," complete Part I, Item 4c on the continuation sheet on Page 4.

f. If Part I, Item 4e = "Yes," complete Part I, Item 4f on the continuation sheet on Page 4.

5. AUDITEE INFORMATION

a. Auditee name
CHELSEA SCHOOL DISTRICT

b. Auditee address (Number and street)
500 WASHINGTON ST.
City
CHELSEA
State
MI ZIP + 4 Code
4 8 1 1 8 —

c. Auditee contact
Name
TERESA ZIGMAN
Title
EXECUTIVE DIRECTOR OF BUSINESS AND OPER.

d. Auditee contact telephone
(734) 433 — 2208

e. Auditee contact FAX
(734) 433 — 2218

f. Auditee contact E-mail
TZIGMAN@GMAIL.CHELSEA.K12.MI.US

g. AUDITEE CERTIFICATION STATEMENT — This is to certify that, to the best of my knowledge and belief, the auditee has: (1) engaged an auditor to perform an audit in accordance with the provisions of OMB Circular A-133 for the period described in Part I, Items 1 and 3; (2) the auditor has completed such audit and presented a signed audit report which states that the audit was conducted in accordance with the provisions of the Circular; and, (3) the information included in **Parts I, II, and III** of this data collection form is accurate and complete. I declare that the foregoing is true and correct.

Auditee certification	Date
ELECTRONICALLY CERTIFIED	11/11/2008
Name of certifying official	
TERESA A. ZIGMAN	
Title of certifying official	
EXECUTIVE DIRECTOR OF BUSINESS AND OPERATIONS	

**6. PRIMARY AUDITOR INFORMATION
(To be completed by auditor)**

a. Primary auditor name
REHMANN ROBSON

b. Primary auditor address (Number and street)
675 ROBINSON RD.
City
JACKSON
State
MI ZIP + 4 Code
4 9 2 0 4 —

c. Primary auditor contact
Name
DAVID M. FISHER, CPA
Title
PRINCIPAL

d. Primary auditor contact telephone
(517) 787 — 6503

e. Primary auditor contact FAX
(517) 788 — 8111

f. Primary auditor contact E-mail
DAVE.FISHER@REHMANN.COM

g. AUDITOR STATEMENT — The data elements and information included in this form are limited to those prescribed by OMB Circular A-133. The information included in Parts II and III of the form, except for Part III, Items 7, 8, and 9a-9f, was transferred from the auditor's report(s) for the period described in Part I, Items 1 and 3, and **is not a substitute** for such reports. The auditor has not performed any auditing procedures since the date of the auditor's report(s). A copy of the reporting package required by OMB Circular A-133, which includes the complete auditor's report(s), is available in its entirety from the auditee at the address provided in Part I of this form. As required by OMB Circular A-133, the information in **Parts II and III** of this form was entered in this form by the auditor based on information included in the reporting package. The auditor has not performed any additional auditing procedures in connection with the completion of this form.

7a. Add Secondary auditor information? (Optional)1 ☐ Yes 2 ☒ No

b. If "Yes," complete Part I, Item 8 on the continuation sheet on page 5.

Auditor certification	Date
ELECTRONICALLY CERTIFIED	11/11/2008

PART II**FINANCIAL STATEMENTS (To be completed by auditor)****1. Type of audit report**

Mark either:

1 ☒ Unqualified opinion **OR**any combination of: 2 ☐ Qualified opinion 3 ☐ Adverse opinion 4 ☐ Disclaimer of opinion**2. Is a "going concern" explanatory paragraph included in the audit report?**1 ☐ Yes 2 ☒ No**3. Is a significant deficiency disclosed?**1 ☐ Yes 2 ☒ No – SKIP to Item 5**4. Is any significant deficiency reported as a material weakness?**1 ☐ Yes 2 ☐ No**5. Is a material noncompliance disclosed?**1 ☐ Yes 2 ☒ No**PART III****FEDERAL PROGRAMS (To be completed by auditor)****1. Does the auditor's report include a statement that the auditee's financial statements include departments, agencies, or other organizational units expending \$500,000 or more in Federal awards that have separate A-133 audits which are not included in this audit? (AICPA Audit Guide, Chapter 12)**1 ☐ Yes 2 ☒ No**2. What is the dollar threshold to distinguish Type A and Type B programs? (OMB Circular A-133 § .520(b))**

\$ 300,000

3. Did the auditee qualify as a low-risk auditee? (§ .530)1 ☒ Yes 2 ☐ No**4. Is a significant deficiency disclosed for any major program? (§ .510(a)(1))**1 ☐ Yes 2 ☒ No – SKIP to Item 6**5. Is any significant deficiency reported for any major program as a material weakness? (§ .510(a)(1))**1 ☐ Yes 2 ☐ No**6. Are any known questioned costs reported? (§ .510(a)(3) or (4))**1 ☐ Yes 2 ☒ No**7. Were Prior Audit Findings related to direct funding shown in the Summary Schedule of Prior Audit Findings? (§ .315(b))**1 ☐ Yes 2 ☒ No**8. Indicate which Federal agency(ies) have current year audit findings related to direct funding or prior audit findings shown in the Summary Schedule of Prior Audit Findings related to direct funding. (Mark (X) all that apply or None)**98 ☐ U.S. Agency for International Development10 ☐ Agriculture23 ☐ Appalachian Regional Commission11 ☐ Commerce94 ☐ Corporation for National and Community Service12 ☐ Defense84 ☐ Education81 ☐ Energy66 ☐ Environmental Protection Agency39 ☐ General Services Administration93 ☐ Health and Human Services97 ☐ Homeland Security14 ☐ Housing and Urban Development03 ☐ Institute of Museum and Library Services15 ☐ Interior16 ☐ Justice17 ☐ Labor09 ☐ Legal Services Corporation43 ☐ National Aeronautics and Space Administration89 ☐ National Archives and Records Administration05 ☐ National Endowment for the Arts06 ☐ National Endowment for the Humanities47 ☐ National Science Foundation07 ☐ Office of National Drug Control Policy59 ☐ Small Business Administration96 ☐ Social Security Administration19 ☐ U.S. Department of State20 ☐ Transportation21 ☐ Treasury64 ☐ Veterans Affairs00 ☒ None☐ Other – Specify:

PART III FEDERAL PROGRAMS – Continued

9. FEDERAL AWARDS EXPENDED DURING FISCAL YEAR				10. AUDIT FINDINGS				
CFDA Number	Research and development (c)	Name of Federal program (d)	Amount expended (e)	Direct award (f)	Major program (g)	If yes, type of audit report 3 (h)	Type(s) of compliance requirement(s) 4 (a)	Audit finding reference number(s) 5 (b)
Federal Agency Prefix1 (a)	Extension 2 (b)							
1 0 .550	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	ENTITLEMENT COMMODITIES	\$ 43,638 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
1 0 .553	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	NATIONAL SCHOOL BREAKFAST	\$ 6,928 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
1 0 .555	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	NATIONAL SCHOOL LUNCH	\$ 95,816 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
8 4 .002A	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	ABE - INSTRUCTION	\$ 52,659 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
8 4 .298	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	TITLE V	\$ 124 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
8 4 .367	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	TITLE II, PART A	\$ 58,878 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
8 4 .318	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	TITLE II, PART D	\$ 4,706 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
8 4 .027A	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	SPECIAL EDUCATION CLUSTER	\$ 578,827 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	U	O	N/A
8 4 .173	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	PRESCHOOL INCENTIVE	\$ 4,836 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	U	O	N/A
8 4 .181	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	INFANTS & TODDLERS	\$ 15,043 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
TOTAL FEDERAL AWARDS EXPENDED			\$ 868,202 .00					

¹ See Appendix 1 of instructions for valid Federal Agency two-digit prefixes.² Or other identifying number when the Catalog of Federal Domestic Assistance (CFDA) number is not available. (See Instructions)³ If major program is marked "Yes," enter only one letter (U = Unqualified opinion, Q = Qualified opinion, A = Adverse opinion, D = Disclaimer of opinion) corresponding to the type of audit report in the adjacent box. If major program is marked "No," leave the type of audit report box blank.⁴ Enter the letter(s) of all type(s) of compliance requirement(s) that apply to audit findings (i.e., noncompliance, significant deficiency (including material weaknesses), questioned costs, fraud, and other items reported under § 510(a)) reported for each Federal program.

A. Activities allowed or unallowed E. Eligibility
B. Allowable costs/cost principles F. Equipment and real property management
C. Cash management G. Matching, level of effort, earmarking
D. Davis – Bacon Act H. Period of availability of Federal funds
5 N/A for NONE I. Procurement and suspension and debarment L. Reporting
J. Program income M. Subrecipient monitoring
K. Real property acquisition and relocation assistance N. Special tests and provisions
O. None
P. Other

PART III FEDERAL PROGRAMS - Continued									
9. FEDERAL AWARDS EXPENDED DURING FISCAL YEAR					10. AUDIT FINDINGS				
Federal Agency Prefix1 (a)	CFDA Number Extension 2 (b)	Research and development (c)	Name of Federal program (d)	Amount expended (e)	Direct award (f)	Major program (g)	If yes, type of audit report 3 (h)	Type(s) of compliance requirement(s) 4 (a)	Audit finding reference number(s) 5 (b)
8 4	.186A	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	DRUG FREE SCHOOLS	\$ 6,095 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
8 4	.365	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	TITLE II	\$ 652 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
		1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	ARCS	\$.00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	N/A	E	
		1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$.00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No			
		1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$.00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No			
		1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$.00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No			
		1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$.00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No			
		1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$.00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No			
		1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$.00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No			
		1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$.00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No			
		1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$.00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No			
		1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$.00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No			
		1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$.00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No			
		1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$.00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No			
		1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$.00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No			
		1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$.00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No			
		1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$.00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No			
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PART I Item 5 Continuation Sheet

c. List the multiple Employer Identification Numbers (EINs) covered in this report.

f. List the multiple DUNS covered in the report.

1	N / A	21	41							1	N / A	21							
2		22	42							2		22							
3		23	43							3		23							
4		24	44							4		24							
5		25	45							5		25							
6		26	46							6		26							
7		27	47							7		27							
8		28	48							8		28							
9		29	49							9		29							
10		30	50							10		30							
11		31	51							11		31							
12		32	52							12		32							
13		33	53							13		33							
14		34	54							14		34							
15		35	55							15		35							
16		36	56							16		36							
17		37	57							17		37							
18		38	58							18		38							
19		39	59							19		39							
20		40	60							20		40							

PART I GENERAL INFORMATION - Continued

8. Part I, Item 8, Secondary Auditor's Contact Information. (List the Secondary Auditor's Contact information)

1. a. Secondary Auditor name N / A		2. a. Secondary Auditor name		3. a. Secondary Auditor name	
b. Secondary Auditor address (Number and street)		b. Secondary Auditor address (Number and street)		b. Secondary Auditor address (Number and street)	
City		City		City	
State ZIP + 4 Code		State ZIP + 4 Code		State ZIP + 4 Code	
c. Secondary Auditor contact Name Title		c. Secondary Auditor contact Name Title		c. Secondary Auditor contact Name Title	
d. Secondary Auditor contact telephone		d. Secondary Auditor contact telephone		d. Secondary Auditor contact telephone	
e. Secondary Auditor contact FAX		e. Secondary Auditor contact FAX		e. Secondary Auditor contact FAX	
f. Secondary Auditor contact E-mail		f. Secondary Auditor contact E-mail		f. Secondary Auditor contact E-mail	
4. a. Secondary Auditor name		5. a. Secondary Auditor name		6. a. Secondary Auditor name	
b. Secondary Auditor address (Number and street)		b. Secondary Auditor address (Number and street)		b. Secondary Auditor address (Number and street)	
City		City		City	
State ZIP + 4 Code		State ZIP + 4 Code		State ZIP + 4 Code	
c. Secondary Auditor contact Name		c. Secondary Auditor contact Name		c. Secondary Auditor contact Name	
Title		Title		Title	
d. Secondary Auditor contact telephone		d. Secondary Auditor contact telephone		d. Secondary Auditor contact telephone	
e. Secondary Auditor contact FAX		e. Secondary Auditor contact FAX		e. Secondary Auditor contact FAX	
f. Secondary Auditor contact E-mail		f. Secondary Auditor contact E-mail		f. Secondary Auditor contact E-mail	